INTERNATIONAL
Poverty Centre

United Nations Development Programme   December, 2004   Number 8

One pager

Measuring poverty: what's in the line?

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Despite a long pedigree that dates back to late Victorian England, the notion of a 'poverty line' – a welfare threshold expressed in monetary terms – is not without its problems. Critics contend that the idea of a *discrete* cut-off point separating the poor from the non-poor is conceptually flawed as poverty and well-being can best be seen as a *continuum*. There is, in fact, considerable movement into and out of poverty that studies relying on a fixed poverty line fail to capture.

By focusing on the *private* means to satisfy human needs, income or consumption reflects well-being only indirectly. But this is just one way of assessing poverty. It matters, for instance, whether an individual also has access to welfare-enhancing *public* goods and services. This is why monetary measures are often combined with more 'direct' indicators of welfare such as life expectancy, nutritional and health status, education, and housing conditions. Combining monetary and social indicators not only better captures the multiple dimensions of deprivation, but may also shed light on its chronic or transient nature.

In practice, though, money-metric measures are the most widely used proxy for poverty. The question then becomes, what welfare level determines the cut-off point between poor and non-poor?

The answer is not so simple, as poverty measures can be highly sensitive to the methodological choices and assumptions made in constructing a poverty line. The differences can be far from trivial. Székely et al. (2000) have shown that, depending on the choice of equivalence scales, assumptions about economies of scale in consumption, and methods of treating zero and missing incomes or adjusting for income misreporting, the Latin American headcount ratio ranged from 12.7% to 65.8%, and the poverty gap from 4.5% to 37.9%, in the late 1990s!

Poverty measures are often rough estimates, at best. Take income. Apart from its inability to fully capture a person's command over commodities – due, for instance, to regional variations in prices, costs of living or the availability of essential goods – incomes from surveys are known to be grossly under-reported. Yet the extent of under-reporting cannot be gauged properly, partly because of limitations in the national accounts which do not contain reliable data on informal and home-based activities, a crucial source of earnings for the poor. Adjusting for misreporting can sometimes introduce new biases, instead of correcting them.

Even determining the food component of a poverty line is far from straightforward. Should one examine the actual consumption patterns of the poor or rather select a food basket that will yield the required calories at the lowest cost? Typically, nutritional requirements are reported as national averages, even though needs vary by sex, age and activity levels. And while equivalence scales may be used to account for differences in household structure, there is little guidance for choosing between alternative scales despite their varying impact on poverty figures.

Calculating the non-food share is more problematic still. Despite a consensus that non-food essentials should be part of a poverty consumption bundle, it is not obvious what those items should be. Thus, a modest allowance for non-food expenditure is often made by scaling up the food poverty line by some multiple, which typically reflects what poor households spend on non-food items rather than what they *ought* to spend in order to avoid deprivation. This method of estimating the non-food share tends to understate the scale of poverty, particularly among children when combined with the use of calorie-based equivalence scales; children may require fewer calories than male adults, but have many other needs that must be paid for.

Poverty comparisons can also be biased by subtle differences in survey definitions – such as the inclusion of different income sources or consumption aggregates – or the choice of deflators to correct for temporal price changes. Instead of re-pricing the same food basket and re-calculating the non-food share in each period, adjustments for price changes are often made by multiplying the total poverty line by a general consumer price index. The problem is that cost-of-living indices do not capture well the consumption patterns, and hence the prices, that matter to the poor. Similar issues arise when using purchasing power parity factors to correct for varying costs of living across countries.

Ultimately, one must recognize that poverty lines – however defined – will always represent an arbitrary cut-off point that, alone, may not offer the best guide for policy making. More important than searching for the 'single best' poverty line is to explore the sensitivity of poverty estimates to the choices and assumptions behind the statistics, as well as the use of alternative lines and measures. What matters, after all, is to find robust measures that allow users to assess time trends in poverty, analyze its determinants and profile, and establish poverty rankings without having to accept the normative judgments that inevitably underlie any single measure.

Reference:

Miguel Székely, Nora Lustig, Martín Cumpa and José Antonio Mejía, "Do we know how much poverty there is?", IDB Working Paper no. 437, December 2000.

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